Nigeria | Macroeconomics

Ahead Of MPC Report

November 2024

Committee Set to Hold its Sixth Meeting in 2024

MPC to Reinforce Its' Hawkish Stance with its Final Meeting for the Year

The Monetary Policy Committee (MPC) is scheduled to hold its sixth meeting of the year on November 25th and 26th, 2024. Key global and domestic factors are likely to dominate the Committee's considerations.

On the global scene, the reversal of disinflationary trends in advanced economies, following rate cuts aimed at stimulating growth, the recent decline in oil prices, and the possible repercussions of these developments on the domestic economy.
In the domestic economy, the rising inflation will be a key factor influencing the committee's decisions, alongside heightened fiscal spending and the ongoing Naira depreciation in both official and parallel markets. These considerations will likely shape the policy response, as the committee seeks to balance price stability with the fiscal pressures stemming from expanded public expenditures. Despite elevated fixed-income yields, investors continue to demand higher returns, intensifying pressure on the monetary landscape.

We expect the MPC to focus on price stability and exchange management, given the persistent upward trend in headline inflation. The committee is likely to adopt a hawkish stance, opting for a rate hike to curb inflationary pressures, stabilize the Naira, and sustain investor interest in Nigeria's fixed-income instruments.

On a Balance of Factors…

We expect the Committee to:

- Hike MPR by 50bps MPR to 27.75%
- Retain Liquidity Ratio at 30%
- Retain the Asymmetric Corridor at +500bps/-100bps around the MPR.
- Maintain the CRR at 50.00%

Economies and Developments

Advanced Economies

Prices Surge Amid Monetary Easing Cycle

Inflation trend reversed across major economies in October. U.S. inflation increased to 2.60% from 2.40%, Eurozone inflation climbed to 2.00% from 1.80%, and U.K. inflation rose significantly to 2.30% from 1.70%. This was driven primarily by a rise in food prices, energy costs, and domestic demand pressures in these economies.

Despite the increase in inflation, monetary authorities sustained a dovish stance, with the FED and BoE cutting rates by 25 basis points, setting them at 4.50%-4.75% and 4.75%, respectively, to manage inflation while allowing for growth. Given ongoing price pressures, we anticipate a cautious approach by monetary authorities as they further monitor price pressures.

Economic Recovery Continues in the Global Scene

Global economies showed diverse growth patterns in Q3:2024. The U.S. economy grew by 2.80% YoY, lower than the 4.90% reported in Q3:2023, The growth was supported by increased consumer spending, export, and government spending on defence. The UK economy grew by 0.10% (vs -0.10% contraction in Q3:2024), driven by higher consumer and government spending. Also, China's GDP grew 4.60% YoY (lower than the 4.70% YoY Q2:2024). This was driven by government stimulus measures, domestic demand, and industrial production in the period,

The IEA's October report shows global oil production rose 0.30% to 102.97 mbpd, driven by Libya's market return and delayed OPEC+ cuts, with OPEC+ output up 0.79% to 26.96 mbpd. By 2025, demand is projected at 103.8 mbpd, sparking oversupply concerns from non-OPEC producers. Brent Crude and WTI price increased by 1.20% MoM and 3.20% MoM to USD 74.45pb and USD 71.56pb, respectively, amid renewed geopolitical tension.

Table 1: Monetary Stance and Inflation since last MPC

Country	Monetary Rate		Inflation
USA	Cut	25bps	⬆ 2.60%
UK	Cut	25bps	⬆ 2.30%
EUROZONE	Cut	25bps	⬆ 2.00%

Domestic Economy

Oil Sector Recovery Despite Economic Challenges

In Q3:2024, oil production averaged 1.33mbpd, marking a 9.92% YoY increase from 1.21mbpd in Q3:2023. This growth was supported by higher output following the production from the Utapete field, reopening of terminals like Bonny & Tulia-Okwuibome – which were partially closed for maintenance in the previous year – and government efforts to enhance production and combat oil infrastructure vandalism. Consequently, we anticipate modest growth in the oil sector's output for Q3:2024.

Conversely, the non-oil sector continued to face macroeconomic headwinds in Q3:2024, including high borrowing costs, inflationary pressures, and the weakening Naira. These factors constrained expansion, especially in manufacturing and telecommunications, as reflected in the slight decline in the Purchasing Managers' Index (PMI) to 50.13pts in Q3:2024 from 50.17pts in Q3:2023. We however note that the PMI reading for Q3:2024 shows a marked improvement in the non-oil sector compared to 51.10% recorded in Q2:2024 Looking ahead, we anticipate moderate growth in the non-oil sector for Q3:2024, supported by robust performance in sectors like financial services and insurance, which is expected to offset weaker output in manufacturing and telecommunications.

Inflationary Pressures Intensifies

The National Bureau of Statistics reported that inflation ticked upward for the second consecutive month to register at 33.88 from 32.70% in September 2024 following brief disinflation in June and July. In our inflation report, we explained the drivers of this uptick and expectations going forward. We anticipate continued inflationary pressure in the near term, mainly due to rising food prices driven by increased transportation costs, higher demand for goods during the festive season, and potential agricultural setbacks from flooding. Additionally, the demand for foreign exchange is likely to weaken the Naira, further exacerbating price pressures on the core inflation basket.

Given the MPC's inflation-targeting stance and our projected inflation trajectory, we expect the committee to implement further tightening measures to curb rising inflationary pressures.

Monetary

Monetary Policy

Table 2: **MPC's Decision So Far**

Months	MPR (%)	CRR (%)	Liquidity Ratio (%)	Asymmetric Corridor (bps)
Feb	22.75	45.00	30.00	+100/-700
Mar	24.75	45.00	30.00	+100/-300
May	24.75	45.00	30.00	+100/-300
Jul	26.25	45.00	30.00	+500/-100
Sept	27.73	50.00	30.00	+500/-100

Adjusting to Global Trends and Domestic Pressures

As the upcoming MPC meeting looms, the committee is poised to re-evaluate the monetary policy landscape amid persistent inflationary pressures and exchange rate volatility. Nigeria's headline inflation currently stands at 33.88% as of October, up from 32.70% in September (11.70% above the CBN's target of 21.00%). Likewise, core inflation surged to 28.37% (vs 27.43% in September), signaling sustained structural price pressures.

On the exchange rate front, despite the gross reserve reaching USD40.28bn as at 20th November, the gap between the parallel and official exchange rates has widened to NGN57.57/USD from NGN51.52/USD as of the last meeting, reflecting increased arbitrage activity and stronger demand pressures. These currency pressures have heightened import costs, feeding into domestic inflation. Additionally, the liquidity conditions remain tight following the recent 500bps hike in the Cash Reserve Ratio (CRR), which has constrained credit growth.

Globally, monetary easing in advanced economies continues, with the U.S. Federal Reserve cutting rates to 4.75%, influencing capital flows and external financing conditions for emerging markets like Nigeria. Oil prices remain volatile at an average of USD80.34 up from USD76.05 per barrel, while production fluctuated at 1.32mbpd, offering some relief for external reserves.

In light of these dynamics, the MPC might consider a modest rate hike to stabilize inflation expectations. The committee is expected to prioritize price stability and ensure rates remain attractive to boost capital inflows, all while cautiously supporting economic growth.

Fiscal Policy

External Financing to Address Budget Deficit

Since the last Monetary Policy Committee (MPC) meeting, the Federal Government has secured significant multilateral loans aimed at driving sectoral development and enhancing living standards of the populace. Key disbursements include a USD2.30mn allocation from the U.S. Agency for International Development (USAID) and another USD132.00mn loan from the African Development Bank (AfDB) to support year-round farming and boost agricultural output. Additionally, the government is advancing plans to issue a USD1.70bn Eurobond and a USD500.00mn Sukuk bond to address the NGN9.10trn budget deficit.

The planned bond issuances, alongside anticipated inflows from multilateral loans and domestic borrowings, are likely to exacerbate Nigeria's debt burden. This development raises heightened concerns over escalating debt servicing costs, especially in light of continued FX volatility, which could further strain the country's external debt balance.

Expanding Deficits Amid Fiscal Incentives

To ease the impact of the high-interest rate environment and improve living standards, the Federal Government has introduced tax exemptions on pharmaceutical products, energy inputs, and infrastructure projects, alongside proposed tax reliefs for exports and private sector players to stimulate economic activity. However, these measures may reduce government revenues and widen the burgeoning fiscal deficit.

The proposed NGN49.70trn 2025 budget highlights the government's expansive fiscal plans, allocating NGN15.81trn for debt servicing, NGN14.21trn for recurrent expenditures, and NGN16.48trn for capital projects. Moreover, revenue projections rely on ambitious assumptions, including a crude oil production target of 2.12mbpd, a USD75.00 oil benchmark, a 16.95% inflation rate, and an NGN1,400/USD exchange rate. While efforts are underway to consolidate tax identification and broaden the tax base, exemptions and waivers have been capped at NGN3.22trn for 2025, limiting the extent of revenue reductions from VAT exemptions.

Given elevated fiscal spendings and stimulus and anticipated debt levels for the coming year, the Committee is likely to maintain its hawkish stance, prioritizing price stability.

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Markets

Fixed Income Market

High Yields Amid Tight Liquidity

Market liquidity has remained under pressure, driven by the CBN's recent hikes in the CRR and continued liquidity management measures. As a result, system liquidity hit a low of NGN492.95bn as of November 21, 2024, reducing available capital for fixed income market participants. The CBN's allotment of NGN3.34trn in OMO bills during this period further tightened liquidity.

Despite the previous hike in the MPR, T-Bill rates had remained relatively subdued at earlier auctions. However, a shift occurred in the last two auctions, where rates saw a significant uptick, rising to 18.00%, 18.50%, and 23.50% (vs 17.00%, 17.5% and 20.00% after the last meeting). We have also noticed that investors have continued to show a preference for longer-dated instruments. The CBN recently released the T-Bills auction calendar for December, and it is observed that paper supply totalled NGN1.19trn. We believe that this may exert upward pressure on yields.

Mirroring activities in the T-Bills space, bonds rate on the 29s and 31s rose to 20.41% and 21.93% (vs 18.43% and 20.45% previously), following the discontinuation of the 33s paper. The secondary market has been largely bearish since the previous meeting, with average T-Bills and bond yields climbing to 24.07% and 19.41% (vs 20.74% and 18.68%).

The rising interest rate environment, coupled with moderate oil price recovery, has further influenced bond pricing. With oil prices averaging c.USD80 per barrel, the government's fiscal position has slightly improved, but this remains insufficient to drive down bond yields in the face of ongoing inflationary pressures. Foreign investors continue to stay on the sidelines, while domestic investors, particularly pension funds and insurance companies, are more active in the market, seeking to hedge against inflation through long-duration bonds.

The current elevated yield environment plays a pivotal role in attracting foreign investments to the fixed-income market. With inflation printing 33.88%, real returns on fixed income instruments remains negative. We, however, note the narrowing of the negative real rate of returns : (-2.33% vs -10.34% in December 2023). This could likely reinforce the MPC's inclination toward a hawkish policy stance in its next meeting.

Equities Market

Sentiment Reversal Amid Policy Dynamics

Following the MPC's last meeting in September, the local bourse experienced a shift in sentiment, reversing the positive momentum seen in September. The **NGXASI** declined by 0.92% to close at 97,651.23pts, bringing the year-to-date return to 30.60% down from 31.81% recorded in September. This decline was primarily driven by selling pressure on key banking stocks including **ACCESSCORP, GTCO, FBNH** and **ZENITHBANK**, as well as large-cap industrial tickers like **DANGCEM**, **WAPCO** and **BUACEMENT**. These losses overshadowed buying interest in select stocks, notably **SEPLAT,** which benefitted from the regulatory approval for its acquisition of Mobil's offshore assets, as well as **ARADEL**, which marked its entry into the local bourse on October 14. Meanwhile, November has been characterized by improving sentiment, as the market recorded an uptick of +0.33% MtD as of 20th November.

Performance was mixed across sectors as **NGXOILGAS** (+15.90%), **NGXINS** (+4.01%), and **NGXBNK** (+4.78%) closed green, while **NGXCNSMRGS** (-0.75%), **NGXINDUSTR** (-9.31%), **MERI-AGRIC** (-1.73%) and **MERI-TELCO** (-0.59%) closed in the red zone as of the end of October.

Our analysis indicates that market activities was largely driven by positive sentiment towards oil and gas stocks, particularly, **ARADEL**, following its listing in October, as well as **SEPLAT**, buoyed by government's approval for its MPNU acquisition.

We anticipate that the MPC will lean towards a more hawkish stance in its upcoming meeting, prioritizing its inflation-targeting mandate over the equity market considerations.

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